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ABSTRACT

This report summarizes trend data on borrowing by students and parents to pay for college, and reports on a 1995 national survey of undergraduate students and their parents concerning student loan debt. Analysis of data from the National Postsecondary Student Aid Study found that there was an explosion in college borrowing in the 1990s; borrowing increased at a rate nearly three times that of college costs and four times that of personal incomes; college debt increased fastest for students at public colleges and universities. The survey indicated that students and families feel great anxiety about the burdens that student loans place on lifestyles, careers, and educational objectives; student loan debt is a very serious problem for a significant number of students and families; students and families have accepted borrowing to pay for college as a major aspect of their overall debt patterns; and the economic value of higher education remains a strong motivating factor for students and families. The report concludes that American families feel "locked in" to the American dream of a college education, which they see not as optional but as essential. The survey is included. (DB)

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College Debt and the American Family

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A Report from

TERI
The Education Resources Institute
and
THE INSTITUTE
for Higher Education Policy

College Debt and the American Family

September, 1995

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The Education Resources Institute, Inc. (TERI) was incorporated in June 1985 for the purpose of aiding students in attaining an education and assisting educational institutions in providing an education in an economical fashion. To achieve this purpose, TERI functions as a private guarantor of student loans disbursed by participating lending institutions.

TERI's Higher Education Information Center (HEIC) division receives funds from federal, state and private grants, membership fees from colleges and universities, and other sources. These revenues are used to provide information at no cost to students and their families about financial aid for post-high school education and career opportunities.

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The Institute for Higher Education Policy is a non-profit, non-partisan organization whose mission is to foster access to and quality in postsecondary education. The Institute's activities are designed to promote innovative solutions to the important and complex issues facing higher education. These activities include research and analysis, policy formulation, program evaluation, strategic planning and implementation, and seminars and colloquia.

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EXECUTIVE SUMMARY

Borrowing by students and parents to pay for college has been one of the most commonly discussed and debated issues of national policy over the last two decades. Concerns about steadily increasing borrowing levels, which began to occur in the late 1970s, have prompted a variety of policy proposals to ease the burden of college borrowing. Despite efforts to simplify and streamline student loan repayment, public knowledge about who borrows, how much is borrowed, and what students and their families think about borrowing is very limited. Much of what people know and think about student borrowing is framed by media reports, college student guides, and word-of-mouth. But how accurate those impressions are is virtually unknown.

To assess the current status of borrowing to pay for college on a national level, The Education Resources Institute (TERI) of Boston, in cooperation with The Institute for Higher Education Policy in Washington, DC, has prepared this comprehensive summary report. Our report seeks to add to public knowledge about college borrowing in several distinct ways. First, we present the most recent data available on national college borrowing trends. The analysis in this report focuses on borrowing trends in the 1990s, and includes the most current estimates of 1995 borrowing levels and projections of total borrowing by the end of the decade. Data on the characteristics of those taking out student loans also comprise an important component of this analysis.

We also offer the results of a nationally representative survey of undergraduate students and families who borrow to pay for college. The survey, conducted in July of 1995, was designed to assess the impact of student loan debt on family attitudes about college, major financial decisions, and the possible future ramifications of debt burden. This survey provides a snapshot of student and family views about college debt and paying for college.

Profiles of student and family borrowers complete this package of information on college loan debt. These borrowers, who all currently have loans through TERI to pay for their

education were interviewed at length to further illustrate how borrowing impacts American families in their pursuit of postsecondary education.

The combination of national data, survey responses, and profiles presents for the first time a complete picture of the situation facing students and families--both now and in the near future--as they attempt to finance what has become one of the most important, and most expensive, pieces of the American Dream: a college education. The overall findings suggest that while borrowing for college has exploded in the last five years, families are torn between their need to borrow and the burdens that these loans place on their present and future.

National Student Loan Data

Our analysis of national data on borrowing revealed that changes in the federal student loan programs have had a dramatic impact on borrowing for college. The study found that:

There has been an explosion in college borrowing in the 1990s.

In the 1990s, American college students have borrowed as much as the amount borrowed in the 1960s, 1970s, and 1980s combined. This explosion in borrowing means that college students have borrowed over $100 billion in just six fiscal years. Even more astounding is that the majority of that increase took place in 1993 and 1994, when borrowing increased a total of 57 percent from 1992. Much of this increase is the result of new borrowing by students through the unsubsidized Stafford loan component of the Federal Family Education Loan (FFEL) program, which allows all students to borrow regardless of need. In 1995, students and parents are expected to borrow almost $23 billion in Federal Family Education Loans, including subsidized and unsubsidized Stafford loans and Parent Loans for Undergraduate Students (PLUS), and will borrow an additional $1 billion in Federal Direct Student Loans (FDSL).

Borrowing is increasing at a rate nearly three times as fast as college costs and four times as fast as personal incomes.

Between 1990 and 1994, borrowing grew by an average of 22 percent annually. During that same time period, costs of attendance (tuition, fees, room, and board) at public institutions increased by an average of 6.6 percent per year, and at private institutions by an

average of 7.3 percent. Borrowing also has significantly outpaced growth in incomes. Disposable personal income per capita from 1990 to 1994 increased by only 4.7 percent per year.

If borrowing continues at current rates, by the year 2000 families will be borrowing $50 billion annually.

Based on the experience of loan borrowers in the 1990s, annual student loan borrowing will jump from $23 billion in 1995 to $50 billion by the year 2000. This doubling in just five years means that student loan borrowing by Americans would be on par with current individual expenditures for health insurance ($39.5 billion in 1994).

Parents are borrowing record amounts to help their children pay for college.

In 1992, Congress changed the law so that parents, regardless of their ability to repay, are not restricted in the amount that they can borrow. Parent borrowing through the federal PLUS program will have grown from less than $1 billion in 1990 to $1.6 billion in 1995. The data indicate that the number of parent loans awarded has remained steady or declined over this time period, suggesting that parents who borrow are taking out ever-higher amounts to assist their children with college financing.

Characteristics of Borrowers: 1990 and 1993

Our analyses of the most recent data from the National Postsecondary Student Aid Study (NPSAS) indicate that cumulative borrowing levels for several groups of students increased significantly from 1990 to 1993. NPSAS data indicate that:

College debt is increasing fastest for students at public colleges and universities.

From 1990 to 1993, the average debt for undergraduates at public four-year institutions increased by a total of 13 percent, while the average debt for students attending private four-year institutions grew by only 2 percent overall. Given that total costs of attendance for students at public four-year institutions rose by about 19 percent over that time period, this suggests that the majority of the increase in costs at public four-year institutions was covered by student loans.

Students who often have the highest need, including older students, part-timers, and minorities, are increasing their debt levels at faster rates than other students.

From 1990 to 1993, full-time undergraduates saw their borrowing increase by an average of 8 percent. Part-time students experienced a much higher 17 percent jump over this time period. Traditional college age students--18-24 year-olds--saw their debt levels rise by 4 percent, while 25-34 year-olds experienced a 20 percent increase, and 35-44 year-old students experienced a 29 percent increase. Debt for white students rose 9 percent between 1990 and 1993 but jumped by 19 percent for non-white students.

Student and Family Attitudes about Borrowing: A National Survey

The nationally representative survey of undergraduate college students and families asked a variety of questions concerning college costs, student indebtedness, family ability to pay for college, and future concerns about debt burdens. The survey, which has a margin of error of +/- 5 percent, revealed several important findings:

Students and families feel great anxiety about the burdens that student loans place on their lifestyle, career, and educational objectives.

Sixty-two percent of respondents said they anticipate having to forego major purchases or spending because of the costs of college, and 66 percent believe that buying a home is unlikely shortly after graduation. Similarly, 68 percent said that they consider student loans "necessary yet they are a major financial hardship on my household." Further, when asked if total household debt, including student loan debt, is manageable or a hardship, one quarter of respondents--24 percent--cited their overall debt as a hardship. At the same time, an overwhelming 97 percent ranked a college education as very important, indicating that families see college as an essential goal that must be met despite the costs.

The rising cost of college combined with additional loan debt will cause hardships for students and families.

An overwhelming 87 percent of respondents said that the cost of college is rising at a rate that will soon put a college education out of the reach of most people. Fifty-two percent reported that "any additional debt or major expense in the near future would pose a serious

financial risk for my household." Over half of all respondents, 55 percent, said an additional student loan would make their debt burden somewhat or much more of a hardship.

Student loan debt is a very serious problem for a significant number of students and families.

Nineteen percent of respondents said student loans are or will represent the highest portion of their household debt. Twenty percent of respondents said the prospect of increasing debt has caused students to consider leaving school; 17 percent stated that the prospect of increasing debt has caused them to consider reducing their course load. Twelve percent of respondents cited student loans as being more than 75 percent of their household debt. Seventeen percent reported that their monthly student loan payments are higher than their monthly payments for a mortgage or rent.

Students and families have accepted borrowing to pay for college as a major aspect of their overall debt patterns.

When asked to rank the most necessary reasons to take out any kind of loan, equal percentages of respondents cited buying a home (42 percent) and paying for college (42 percent) as the most necessary reason to take out a loan. Only 6 percent cited purchasing a car as the most necessary reason to take out a loan.

The economic value of higher education remains a strong motivating factor for students and families.

When asked whether or not a good job was likely from a college education, 83 percent said it was likely. And when asked to predict the single most likely outcome of a college education, 67 percent cited a good job.

Conclusion

The findings presented in this report indicate that we are at a crossroads in the financing of higher education. Record levels of borrowing that have been reached in the 1990s are projected to continue, yet national survey data indicate a public that is willing to shoulder the burdens of student loan debt because a college education is so important.

Our national survey shows Americans "locked in" to the American Dream of a college education. Despite signs that they are at or near their financial limits, they see college education not as an optional purchase or debt, but as an essential goal. Many American families say college financing is a "major hardship" to them now, and indicate great anxiety about their future and any additional debt or expense.

We are also seeing increases in borrowing levels for specific categories of students. Borrowing for students at public colleges and universities is rising at higher rates than at private institutions. There also has been a marked increase in the borrowing levels of non-traditional and minority students.

This report raises critical questions. With borrowing levels projected to more than double in the next five years, and with Americans near their debt limits now, will increased debt pressures push them beyond their limits? Or will higher education and the financing structures adapt? The well-being and even the economic survival of the American family may rest on whether these questions are satisfactorily answered.

INTRODUCTION

In a society where it has become all too common to take on debt in order to finance a consumer lifestyle, borrowing for higher education, once a limited practice for students and families, is becoming one of the dominant pieces in the portrait of American family debt. With the rising cost of college and an ever-increasing reliance on student loans to finance higher education, the trends of the last few years are important indicators of what the future holds for college debt and the American family.

Significant changes have taken place over the past few years in the federal student loan programs, which provide the vast majority of the loans taken out by students and parents. The 1992 reauthorization of the Higher Education Act dramatically altered these programs. Changes in need analyses, eligibility, and program structure have increased both the number of borrowers and their loan amounts. As a result, borrowing to pay for college has skyrocketed, leading to higher debt loads for most students and families.

Borrowing by students and families to pay for college has been a frequent issue in the discussion and debate of national student aid policy. Concerns about steadily increasing borrowing rates, which began in the late 1970s, have prompted a variety of policy proposals to ease the burden of college borrowing. Many of the recent proposals have focused on offering students alternative repayment options that are more flexible than the current plans. These options, such as increasing loan forgiveness opportunities or linking payments to the borrower's post-college income, aim to make repayment more user-friendly.

But despite these efforts to simplify and ease student loan repayment, public knowledge about borrowing for college and the operation of federal student loan programs remains limited, based on incomplete, and possibly inaccurate, information. Much of the public's understanding of college borrowing is framed by media reports, student guides to college, and word-of-mouth. How accurate those impressions are is virtually unknown.

Several studies have been conducted over the last decade in an attempt to analyze the issues of college borrowing and student loan debt. These studies have indicated that, in general, average debt levels for students are still relatively low, and only a small segment

of students appear to have trouble repaying their student loans. While these previous studies have provided useful information on tracking average debt amounts and determining the post-graduation earnings and behavior of borrowers, they have been hampered by several important limitations.

First, many prior studies have attempted to assess how much debt represents a "burden" to the average borrower. Unfortunately, little consensus has been reached on this topic: analysts have suggested that as low as 4 percent to as much as 10 percent of post-graduation earnings represent the threshold for student loan debt. In other words, debt totaling more than these percentages is believed to be a burden on students that will negatively impact their ability to purchase a home or a car, pursue public service or other lower-paying careers, or even have children. But how much debt is "manageable" can vary widely for students, depending on their individual circumstances.

Second, these studies have concentrated on borrowing that took place during the 1980s, when overall borrowing trends began to increase substantially, but at a more predictable rate than in the 1990s. However, none of these studies has examined the significant changes that have taken place recently in student loan programs and their effects on borrowing.

Furthermore, past reports have lacked a firm grasp of the public's comprehension of borrowing for college. Important questions such as "how does the American family perceive the current loan system and the effects of recent programmatic changes?" and "what is their ability to shoulder the burdens that increased borrowing entails?" have largely remained unasked and unanswered.

To assess the current status of borrowing to pay for college on a national level, The Education Resources Institute (TERI) of Boston, in cooperation with The Institute for Higher Education Policy in Washington, DC, has prepared this comprehensive summary report of research findings. Several distinct approaches are presented in our report to offer a complete picture of college debt and the American family. First, we present the most recent data available from the U.S. Department of Education on national college borrowing trends. The analysis focuses on trends in the 1990s, and includes the most current estimates of 1995 borrowing levels and projections of student borrowing to the end of the decade. In addition, our analysis includes data on the characteristics of those taking out student loans, based on information gathered from the 1990 and 1993 National Postsecondary Student Aid Study (NPSAS).

We also offer the results of a nationally representative survey of undergraduate students and families who borrow to finance their college education. This survey, conducted in July of 1995, was designed to assess the impact of student loan debt on family attitudes about college, major financial decisions, and the possible future ramifications of debt burden. The survey sample was drawn from a database of approximately 5.5 million college students representing over 1,100 colleges and universities. Represented schools include both public and private institutions, large and small, located throughout the United States. A total of 373 adults from 45 states participated in the survey, which has a margin of error of +/- 5 percent.

Profiles of student and family borrowers round out this report on college loan debt. These borrowers, who all currently have loans through TERI to pay for their education, were interviewed at length to further illustrate how borrowing impacts American families in their pursuit of postsecondary education. A profile is found at the end of each section of the report.

The combination of national data, survey responses, and profiles presents for the first time a complete picture of the situation facing students and families--both now and in the near future--as they attempt to finance what has become one of the most important pieces of the American Dream: a college education.

Family Debt Profile #1: The Lee Family*

"We will do anything for our son. This year, in order to make the payments on the student loans, we will cut back on groceries, my wife will start carpooling to work, and I'll put off buying a truck I need for my business."

The Lee family includes two parents and a son, John, who attends a culinary school in New England. Both parents work: the father, 54, is a plumber and the mother, 48, is a physical therapist. The annual family income is approximately $54,000. Their annual student loan payments exceed $9,000, a monthly total of $766.

This is a hard-working family that strongly believes in the value of higher education, yet finds paying for their only child's education an extreme hardship. They sacrifice so that their son can earn a higher income than he could without this education. They will "eat less, spend more time commuting, and incur lost business" in order for their son to get ahead, according to Mr. Lee.

The family is paying for John's education with loans, credit cards, and "whatever we can get our hands on," Mrs. Lee says. Recently, John raised the issue of leaving school rather than having his father work at two jobs and seriously risk his health.

The family is concerned about the effect of so much debt on their future. "How do they expect me to save for retirement?" Mr. Lee wonders. Default is also of great concern. They believe that people want to repay student loans, but they are often unable to do so. They worry about "being forced to default on all or some" of the $20,000-$30,000 in student loans, even though they "take pride in being hard working, honest, credit-worthy people."

* Names have been changed to protect the privacy of the families and students profiled.

COLLEGE DEBT AND THE AMERICAN FAMILY: NATIONAL DATA

For many Americans, borrowing to pay for a college education is seen as an investment in their future and the potential success that awaits them on the other side of the ivy walls. However, the investment needed for a college education is not small, and many students and families have to look beyond their own limited resources for help in paying for college. Since the mid-1960s, the federal government has been the major provider of such assistance. Student aid programs, which began with small budgets and served a limited number of students, have blossomed into a sizable investment that helps, in one way or another, approximately 43 percent of the 16 million students currently pursuing postsecondary education.

Though student loans have always been a substantial component in the array of aid programs that the federal government offers, several factors have converged recently to increase the prominence of borrowing to pay for college. Most significantly, student loan opportunities have increased over the years as programs have been created, expanded, and redefined to allow more students to borrow greater amounts. As both financial and political support for grant aid has eroded, support for student borrowing has remained strong. In addition, with the escalation of college costs--from 1981 to 1994 costs of attendance at private and public universities rose by 203 percent and 153 percent, respectively--students and families have had a greater need for loans. The most recent data show that American families have readily taken advantage of increased borrowing opportunities and are assuming record levels of debt.

The situation currently facing student and family borrowers can be summed up in four words: an explosion in borrowing. Since the inception of the Federal Family Education Loan (FFEL) program in 1965, the program has swelled to more than $205 billion in cumulative volume in 1995.[1] Overall, loan volume has grown steadily from the $73 million in original loans issued in 1965. More striking, however, is the fact that the dollar amount of

the loans issued from 1990 to 1995--over $100 billion--represents one-half of the cumulative volume of the entire program.[2] In other words, total borrowing in the 1990s is equal to the amount borrowed in the 1960s, 1970s, and 1980s combined.

The largest portion of the growth in student loan borrowing took place in 1993 and 1994, when the amendments from the 1992 reauthorization of the Higher Education Act first took effect. With these changes in place, borrowing skyrocketed by 57 percent in just two years. Projections for 1995 point to continued increases in borrowing, although at a slower rate than the previous year.

Borrowing is increasing at a rate nearly three times as fast as college costs and four times as fast as personal incomes. Between 1990 and 1994, borrowing grew by an average of 22 percent annually. During that same time period, costs of attendance (tuition, fees, room, and board) at public institutions increased by an average of 6.6 percent, and at private institutions by an average of 7.3 percent. Borrowing also has significantly outpaced growth in incomes. Disposable personal income per capita from 1990 to 1994 increased by only 4.7 percent per year.

THE EFFECTS OF THE 1992 REAUTHORIZATION

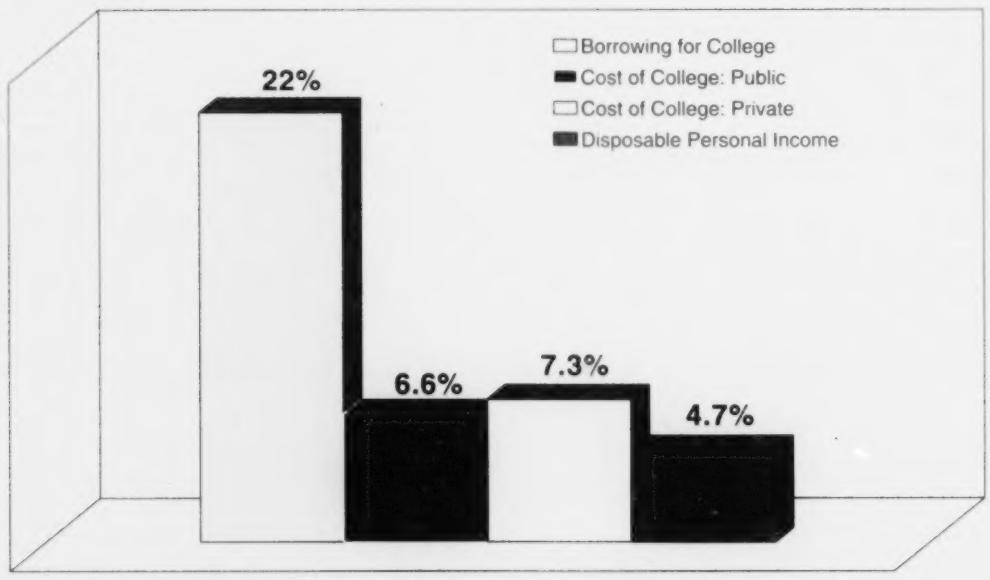
The 1992 reauthorization dramatically altered the FFEL program. In addition to establishing a Federal Direct Student Loan (FDSL) pilot program,[3] an "unsubsidized" component of the Stafford loan program was created, allowing all students, regardless of need, to borrow federally guaranteed loans. The legislation also established higher annual and cumulative loan limits for the Stafford and Supplemental Loans for Students (SLS) programs and removed limits from the PLUS program for parent borrowers. Furthermore, the SLS program was slated for elimination as of July 1, 1994, to be replaced by the unsubsidized Stafford program.

1. All 1995 program data are estimated from U.S. Department of Education, *Loan Volume Update*, First Nine Months of 1995.

2. Unless otherwise noted, all FFEL information is reported in federal fiscal years.

3. The pilot program was subsequently converted to a full program in 1993. Data on loan volume in the FDSL and Perkins Loan Program are not included in this analysis of FFEL, unless otherwise indicated.

Average Annual Growth in Borrowing, College Costs, and Personal Incomes 1990-1994



Note: College costs are defined as tuition, fees, room, and board.
Source: U.S. Department of Education, *Digest of Education Statistics, 1993*; and The College Board, *Trends in Student Aid: 1984 to 1994*.

In addition, the definition of an independent student was altered. Under the previous, complicated definition, an independent student was an individual who met a combination of several criteria including age, military service, marital status, dependency status, and financial resources. After the reauthorization, an independent student is defined as one who: is at least 24 years old; is a veteran; is married; or has legal dependents other than a spouse. Prior to the reauthorization, married students and students with dependents other than a spouse might have been considered dependent students (if they were under 24), depending on their financial situation; now they are automatically classified as independent. The new simplified definition thus expands the population of independent students slightly.

The reauthorization also sought to simplify and streamline the process of applying for financial aid. A single application form for all Title IV aid programs was instituted, and home and farm equity were removed from the assessment of a student's Expected Family Contri-

bution (EFC)--the amount the student or the student's family is required to contribute to total educational expenses. Without home and farm equity in this calculation, the EFCs of middle-income students were effectively lowered, opening the federal aid programs to some new students while permitting other students to qualify for additional financial assistance. In many cases, this new or additional assistance was in the form of loans.

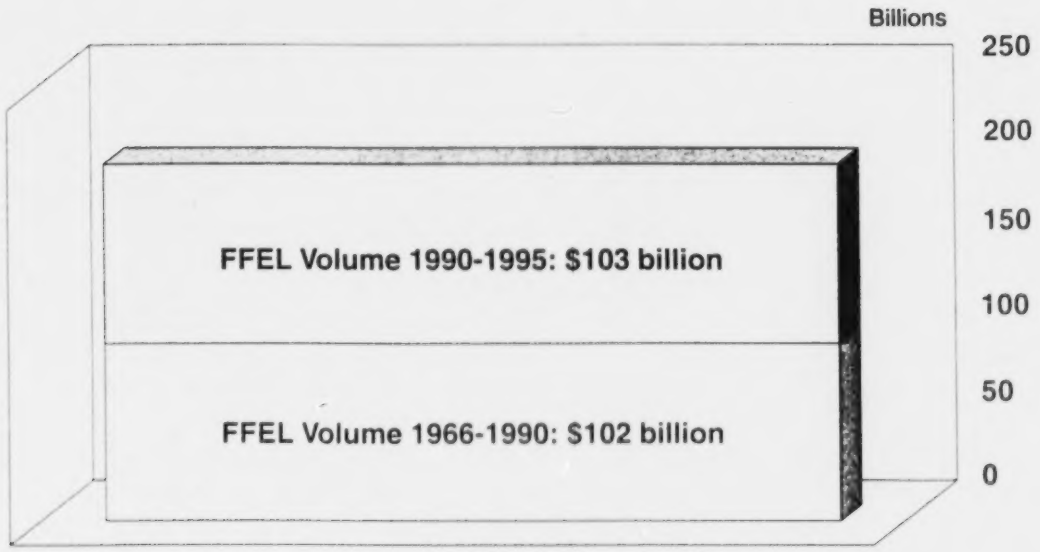
As of July 1, 1994, the new loan limits under the reauthorization took effect--the same date that the SLS program was replaced by the unsubsidized Stafford program. The new ceilings essentially merged the limits from the SLS program with those for the unsubsidized

Loan Limits Before and After the 1992 Reauthorization

	Before the 1992 Reauthorization		After the 1992 Reauthorization	
	Independent Students	**Dependent Students**	**Independent Students**	**Dependent Students**
Subsidized Stafford				
Freshmen	$2,625	$2,625	$2,625	$2,625
Sophomores	$2,625	$2,625	$3,500	$3,500
Juniors/Seniors	$4,000	$4,000	$5,500	$5,500
Graduate/Professional	$7,500	$7,500	$8,500	$8,500
Subsidized Stafford and SLS				
Freshmen	$6,625	$2,625		
Sophomores	$6,625	$2,625		
Juniors/Seniors	$8,000	$4,000		
Graduate/Professional	$11,500	$7,500		
Subsidized and Unsubsidized Stafford				
Freshmen			$6,625	$2,625
Sophomores			$7,500	$3,500
Juniors/Seniors			$10,500	$5,500
Graduate/Professional			$18,500	$8,500
PLUS	Not Eligible	$4,000	Not Eligible	No Limits
Aggregate Maximums				
Undergraduate				
Dependent		$17,250		$23,000
Independent		$37,250		$46,000
Graduate/Professional*		$74,750		$138,500
PLUS		$20,000		No Maximum

* Includes loans made at the undergraduate level.

Growth in FFEL Loan Volume, 1966-1995



Stafford program, raising the annual and aggregate restrictions for both independent and dependent students. As before the reauthorization, students cannot borrow more than their cost of attendance minus other financial aid, and all borrowers are restricted by aggregate limits. (Aggregate limits for graduate students include borrowing at the undergraduate level.) The ceiling on PLUS borrowers was removed in the reauthorization, allowing parents of dependent students to borrow up to the full cost of attendance and above the annual loan limits for Stafford loans. In addition, the limits rose dramatically for independent and graduate/professional students.

Changes from the reauthorization--the creation of the unsubsidized Stafford program, the revision of the definition of an independent student, and the elimination of home and farm equity from the EFC calculation--expanded the field of borrowers in the FFEL program. At the same time, the increase in loan limits potentially raised the amount of each loan borrowed. This twofold effect contributed to the single largest increase in dollar volume in the 30 year history of the program--a jump of over $5 billion from 1993 to 1994.

It is projected that cumulative volume in 1995 will rise to more than $205 billion. If borrowing continues at the same annual rate over the next five years as from 1990 to 1995--roughly 17 percent--cumulative FFEL volume will be approximately $393 billion by the year 2000, with an annual volume of $50 billion. This doubling in just five years means

that total student loan borrowing by Americans would be on par with current individual expenditures for health insurance ($39.5 billion in 1994).

FFEL VOLUME

While the first half of this decade witnessed significant growth in the FFEL program overall, substantial increases occurred in dollar volume in the SLS, unsubsidized Stafford, and PLUS programs after the 1992 reauthorization, whose effects first appear in the tabulations for the FFEL program in fiscal year 1994.[4] From 1990 to 1992, dollar volume increased by 20 percent--about 10 percent each year. In 1993, volume jumped another 20 percent--rising the same amount in one year as in the two previous years. After the reauthorization, FFEL dollar volume in 1994 increased by almost 30 percent to an unprecedented $23 billion for one year. Total borrowing in 1995 is projected to rise slightly from 1994 to an estimated $24 billion.[5]

This surge in borrowing from 1993 to 1994 occurred in all of the FFEL programs, but especially in the unsubsidized Stafford/SLS and PLUS programs.[6] While dollar volume in the subsidized Stafford program grew by 18 percent, volume in the unsubsidized Stafford/SLS programs skyrocketed 62 percent from 1993 to 1994. Without the requirement that borrowers demonstrate financial need in order to qualify for a loan, new borrowers in the unsubsidized Stafford program, in addition to those transferring from SLS, are likely responsible

4. Some volume for the unsubsidized portion of the Stafford program was measured in 1993. For the purposes of this analysis, volume in the SLS and unsubsidized Stafford programs have been combined in 1993 and 1994, as one program was beginning and the other was ending.

5. While overall borrowing is projected to increase in 1995, dollar volume in the FFEL program will actually decrease slightly. However, this decline reflects the advent of borrowing under the FDSL program. We estimate that in 1995, volume for FDSL will be approximately $1 billion.

6. From 1993-1994, actual volume fell in the SLS program by 39 percent and increased by 366 percent in the unsubsidized Stafford program. In 1994, the SLS program was replaced by the unsubsidized Stafford program; while the programs are similar, SLS required borrowers to demonstrate financial need, and the unsubsidized Stafford program does not. Thus, the growth of 366 percent might be attributed to the first year of full implementation of the program and to the transfer of some SLS borrowers to the new program. Despite the differences between the programs, they have been combined to form an unsubsidized Stafford/SLS programs category to offer the best indication of what actually occurred in 1993 and 1994 in the unsubsidized loan programs. In 1995, only unsubsidized Stafford has been assessed, since the SLS program was terminated July 1, 1994.

for much of the jump in volume. The number of unsubsidized Stafford/SLS loans grew by 52 percent during this time, but the average loan increased by only 7 percent, demonstrating the influx of new borrowers to the program.

In 1995, dollar volume in the unsubsidized Stafford program will rise by an estimated 178 percent, with the number of loans jumping 131 percent from 1994. While the size of the average loan has grown by 21 percent, a dramatic increase, this represents only a portion of the growth in volume, thereby revealing the combined effect of new borrowers and larger loan limits on the program.

Dollar volume in PLUS loans rose by 32 percent from 1993 to 1994, whereas volume had grown by only 2 percent the previous year. This increase appears to stem directly from the removal of loan limits after the 1992 reauthorization. The number of loans rose by only 2 percent from 1993 to 1994, indicating that fewer borrowers participated in the program. Yet, those parents who borrowed took out substantially more in each loan: the average loan amount grew by 29 percent. Without any loan limits in the PLUS program, these parents were able to increase the amount they borrowed and did so. This trend is projected to continue in 1995, with the number of loans and dollar volume declining 16 percent and 8 percent, respectively, yet the average loan increasing by 9 percent.

Trends in Undergraduate Borrowing in 1990 and 1993

While loan volume in the FFEL program skyrocketed in 1993 and 1994, National Postsecondary Student Aid Study (NPSAS) data from 1990 and 1993 (the most recent year the survey was conducted) indicate that borrowing increased in the early 1990s as well.[7] To measure the extent of students' borrowing, cumulative borrowing during the fourth and fifth years of undergraduate study--just before graduation--was studied.[8] Cumulative borrowing includes loans from all sources, including formal government and private loan programs, as well as loans from friends and relatives.

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7. NPSAS data are reported in academic years.

8. Fourth- and fifth-year status is determined by the number of credits a student has earned, not by the number of years in which a student has been enrolled. Cumulative borrowing in less-than-four-year schools was not assessed due to the difficulty in tracking students' progress towards program completion.

Change in Loan Volume FY 1992 - FY 1995

	FY 1992	FY 1993	% Change
Total*	**$14,749,000**	**$17,863,000,000**	**21.1%**
Total FFEL			
Number of Loans**	5,130,000	5,647,000	10.1%
Dollar Amount Borrowed**	$14,749,000,000	$17,863,000,000	21.1%
Average Loan Amount**	$2,875	$3,163	10.0%
Stafford Subsidized			
Number of Loans	3,997,000	4,072,000	1.9%
Dollar Amount Borrowed	$11,250,000,000	$12,471,000,000	10.9%
Average Loan	$2,815	$3,062	8.8%
Stafford Unsubsidized			
Number of Loans		423,000	
Dollar Amount Borrowed		$1,019,000,000	
Average Loan		$2,411	
SLS			
Number of Loans	740,000	808,000	9.2%
Dollar Amount Borrowed	$2,207,000,000	$3,060,000,000	38.6%
Average Loan	$2,983	$3,789	27.0%
Stafford Unsubsidized and SLS			
Number of Loans	740,000	1,231,000	66.4%
Dollar Amount Borrowed	$2,207,000,000	$4,079,000	84.8%
Average Loan	$2,983	$3,314	11.1%
PLUS			
Number of Loans	393,000	344,000	-12.5%
Dollar Amount Borrowed	$1,293,000,000	$1,312,000,000	1.5%
Average Loan	$3,289	$3,817	16.1%

* This figure reflects the total dollar amount borrowed in the FFEL and FDSL programs in FY 1995, the first year for which FDSL estimates are available.

** This information (total and for each type of loan) was obtained from the *Loan Program Data Book* or the *Loan Volume Update* for the corresponding fiscal year.

FY 1994	% Change	FY 1995***	% Change
$23,101,000,000	**29.3%**	**$23,760,000,000**	**2.9%**
Total FFEL			
6,747,000	19.5%	6,371,000	-5.6%
$23,101,000,000	29.3%	$22,760,000,000	-1.5%
$3,424	8.3%	$3,573	4.3%
Stafford Subsidized			
4,522,000	11.1%	4,037,000	-10.7%
$14,758,000,000	18.3%	$13,416,000,000	-9.1%
$3,264	6.6%	$3,323	1.8%
Stafford Unsubsidized			
1,322,000	212.5%	3,048,000	130.6%
$4,748,000,000	365.9%	$13,220,000,000	178.4%
$3,592	49.0%	$4,337	20.7%
SLS			
553,000	-31.6%		
$1,868,000,000	-39.0%		
$3,377	-10.9%		
Stafford Unsubsidized and SLS			
1,875,000	52.3%	3,048,000	62.6%
$6,616,000,000	62.2%	$13,220,000,000	99.8%
$3,529	6.5%	$4,337	22.9%
PLUS			
350,000	1.7%	295,000	-15.7%
$1,726,000,000	31.6%	$1,585,000,000	-8.2%
$4,934	29.3%	$5,375	8.9%

*** Numbers for FY 1995 were estimated, based on third quarter figures.

From 1990 to 1993, cumulative borrowing rose by 10 percent from $7,675 to $8,474. While this increase appears relatively minor for the fourth- and fifth-year undergraduate population as a whole, a closer examination of where the growth occurs reveals that certain groups of students--those attending public institutions, non-traditional students (defined by several factors), and minorities--experienced increases in borrowing significantly above the 10 percent figure.

Type and Control of Institution

As one might expect, borrowing for undergraduates varies largely according to the type of institution they attend. The higher cost of attendance at private four-year institutions can lead to larger debt levels for students at these schools. In 1990, the cost of attendance at these institutions averaged about one-and-a-half times that for public four-year schools.[9] Yet, data show that while students at private institutions borrowed more, on average, than those in the public sector, borrowing increased at a greater rate from 1990 to 1993 for students at public four-year institutions. Debt levels for undergraduates attending public four-year institutions rose from $6,742 in 1990 to $7,594 in 1993--a 13 percent increase. For students at private four-year institutions, borrowing grew by only 2 percent, from $10,561 to $10,747. The 13 percent jump, while not dramatic, might reflect the recent increases in tuition and fees in the public sector--a trend that continued after 1993. Given that total costs of attendance for students at public four-year institutions rose by about 19 percent over that time period, this suggests that the majority of this increase was covered by student loans.

Non-Traditional Students

One of the major recent trends in higher education is the rapid growth of the non-traditional student population. These students are older than the traditional student cohort, often enroll on a less than full-time basis, and are financially independent. Analyses of NPSAS data reveal that borrowing by non-traditional students has increased sharply. The traditional student population--18-24 years-old, full-time, and dependent--did not demonstrate the same magnitude of change in cumulative borrowing levels.

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9. *Trends in Student Aid: 1984 to 1994*, The College Board, 1994.

In both 1990 and 1993, the majority of undergraduate borrowers were between the ages of 18 and 24, with 62 percent in 1990 and 60 percent in 1993 in this category. The 25-34 year-old group was the second largest group, with 27 percent in both 1990 and 1993, and the 35-44 year-old cohort was the third largest group with 9 and 10 percent in 1990 and 1993 respectively.

The 18-24 year-old borrowers showed the smallest increase in cumulative borrowing from 1990 to 1993: 4 percent, from $8,193 to $8,559. The older students, however, who comprise more than a third of all student borrowers, showed much greater increases in their debt levels. The 25-34 year-old group moved closer to the traditional cohort's level with cumulative borrowing of $7,119 in 1990 and $8,545 in 1993, a 20 percent increase. The 35-44 year-old group experienced an even larger increase of 29 percent, from $6,150 to $7,941.

Many students attend college on a part-time basis in order to work at a part-time or full-time job, but the data suggest that these students need to borrow to pay for college, despite income from a job. The rising cost of college and the difficulty in finding high-paying jobs without a college degree probably contribute to their need to borrow. Assuming that most part-time students work, it appears that to "get ahead" and gain a college degree they must also rely on loans.

Almost three-quarters of fourth- and fifth-year undergraduate borrowers enrolled on a full-time basis. Part-time students constituted a substantial portion of the population as well, however. Of these groups, full-time undergraduates reported the smallest increase in cumulative debt levels from 1990 to 1993, an 8 percent rise from $8,175 to $8,859. Part-time students experienced a 17 percent jump, more than twice the growth of full-time students, from $6,521 to $7,625.

Financial aid in any form is critical for independent students who, by definition, lack other means of support. In both 1990 and 1993, independent students represented over half of the overall population of undergraduate borrowers, and over that three-year period, experienced a substantial rise in their average cumulative debt level, especially compared with dependent students. Independent students' borrowing rose by 17 percent, from $7,138 in 1990 to $8,365 in 1993. In contrast, borrowing by dependent students increased by only 3 percent, on average, over the same time period, from $8,377 to $8,611. The lack of avail-

Average Cumulative Borrowing for 4th/5th Year Undergraduates

	1990	1993	%Change
Borrowers Overall	$7,675	$8,474	10%
Traditional Student Borrowers			
18-24 Year-Olds	$8,193	$8,559	4%
Full-time	$8,175	$8,859	8%
Dependent	$8,377	$8,611	3%
Non-traditional Student Borrowers			
24-34 Year-Olds	$7,119	$8,545	20%
35-44 Year-Olds	$6,150	$7,941	29%
Part-time	$6,521	$7,625	17%
Independent	$7,138	$8,365	17%
Borrowers by Type and Control of Institution			
Private Four-Year	$10,561	$10,747	2%
Public Four-Year	$6,742	$7,594	13%
Borrowers by Race/Ethnicity			
White, non-Hispanic	$7,947	$8,653	9%
Non-White	$6,496	$7,719	19%

ability of other forms of financial aid and the accessibility of loan programs for independent students might have contributed to increased borrowing.

MINORITIES

When borrowers are examined by race/ethnicity, the data reveal that white, non-Hispanic students have larger amounts of cumulative borrowing, but non-white students show a greater rate of increase. Borrowing by white, non-Hispanics grew from $7,947 in 1990 to

$8,653 in 1993, a 9 percent increase. For non-white students, the increase was much larger: 19 percent from $6,496 to $7,719.

Among non-white borrowers, debt levels for black, non-Hispanics and Hispanics increased by 22 percent and 24 percent, respectively--from $6,508 to $7,933 for black, non-Hispanics and from $5,674 to $7,067 for Hispanics. Borrowing for Asian/Pacific Islanders grew by a smaller percentage but remained higher than that for the other two minority groups cited; from $7,355 in 1990 to $8,385 in 1993--a 14 percent increase.

Overall, these data indicate that non-traditional--older students, part-timers, and independent students--and minority students experienced substantial increases in their levels of cumulative borrowing from 1990 to 1993. While growth in borrowing occurred for all groups, the striking difference in the rates of increase for non-traditional and minority students should be noted. Similar information about cumulative borrowing is not yet available for the time period since 1993, but the dramatic increase in loan volume in the FFEL program in 1994 suggests that this trend among non-traditional student borrowers will persist. For example, the expansion in borrowing among independent students is likely to continue to increase after the 1992 reauthorization, since loan limits were raised even higher for independent students.

Family Debt Profile #2: Steve Johnson*

"I have a loan for this coming semester, but with the costs and my debt burdens, I may have to reduce my course load again."

Steve is a 23 year-old student enrolled in a post-baccalaureate program in order to attend medical school next fall. He believes that "a college education is necessary if you want to pursue a career in America." Although his parents paid for his undergraduate education, he has taken on between $10,000-$20,000 to pay for his post-baccalaureate studies and will borrow even more to attend medical school. With his loan options limited due to his post-baccalaureate status, Steve works to cover his living expenses and to offset education costs, just as he did during his undergraduate study.

Steve recognizes that for many people college is not affordable; however, he feels it is more affordable for him because he has made it such a high personal budget priority. "People have to plan for the costs of college and repayment of their loans. They must try to fit that in," he says. Without loans, Steve would currently be unable to attend school, just like some of his friends who declined to attend due to the cost of college. As it is, he has already reduced his course load once, and his debt burdens have caused him to consider doing so again.

Steve feels that his overall monthly debt payments are "somewhat of a hardship" and his student loans make his hardship "somewhat more difficult."

STUDENT AND FAMILY ATTITUDES ABOUT BORROWING

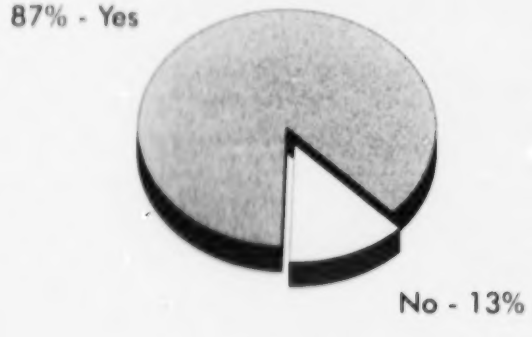
Given the reality of debt that students and families have taken on, what are their attitudes and concerns about increased debt burdens? With borrowing so prevalent in our society that it has become commonplace to take out 30-year mortgages for homes and loans to buy cars, borrowing money to pay for a college education is now the norm. But while much information exists about families' borrowing activities, not as much is known about their attitudes and knowledge regarding student loans and their debt burden.

In order to gather this information, we conducted a national survey of undergraduate students and families who borrow to finance their college education in late July of 1995. The survey instrument was designed to assess the financial and psychological affect of student loan debt on families throughout the United States. Specifically, the survey questions sought to:

- gauge how and why families with college students value a college education;
- assess the affect of overall debt and student debt on lifestyle and other economic decisions;
- examine attitudes about the cost of higher education and student loan debt; and
- explore possible future ramifications of debt burden.

When the major survey findings are compared with the national data, it appears that students and families feel great anxiety about the burdens that loans place on their lifestyle, careers,

YES OR NO, IN MY OPINION THE COST OF COLLEGE IS RISING AT A RATE THAT WILL SOON PUT COLLEGE OUT OF REACH FOR MOST PEOPLE?



SURVEY QUESTIONS

On a scale of 1 - 10, please rank the importance of a college education, where 10 means very high importance and 1 means very low importance.

97% said 8, 9, or 10

I have a list of items associated with completing a college education. Please indicate whether you feel that shortly after graduation each item is likely or unlikely to happen:

Get a good job	likely	83%	unlikely	12%
Buy a home	likely	31%	unlikely	66%

In your opinion, what outcome is most likely from a college degree?

67% said "a good job"

10% said "have a higher income"

On a scale of 1 - 10, please rank how affordable you think college is, where 10 means very affordable and 1 means not at all affordable.

38% said 1, 2, or 3

People take out loans for a variety of reasons, such as to buy a home or car, pay for college, cover medical expenses and other debts, and more. Please list what you think are the first, second, and third most necessary reasons to take out any kind of loan.

42% said "buy a home" as most necessary reason

42% said "pay for undergraduate college" as most necessary reason

6% said "buy a car" as most necessary reason

Do you anticipate having to forego any major purchases or spending because of the costs of college?

Yes	62%	No	37%

What major purchases or spending do you anticipate having to forego?

24% said "buy a home"

63% said "buy a car"

20% said "pay for vacation or other entertainment"

Student loans represent or will represent what portion of your household's overall debt?

The highest	19%	A large	16%	A small	12%
A very large	8%	A moderate	35%	A very small	8%

I am going to read a list of percentage categories. Please stop me when I get to the percentage that your student loans represent of your household's estimated overall debt.

1% - 10%	20%	21% - 30%	19%	41% - 50%	6%		
11% - 20%	26%	31% - 40%	9%	51% - 75%	6%	Over 75%	12%

When including your student loan debt, your total household debt is or will be:

Very manageable	5%	A hardship	20%
Manageable	68%	A major hardship	4%

If you are currently or are about to begin paying a mortgage or rent, are or will your monthly payments be higher for mortgage/rent or student loans?

Mortgage or rent	63%	Student loans	17%	Don't Know/NA	20%

Yes or no, I consider student loans necessary yet they are a major financial hardship on my household?

Yes	68%	No	32%

Looking ahead to the future, an additional student loan will make your debt burden:

No Different	14%	Slightly Different	31%
Somewhat more of a hardship	38%	Much more of a hardship	17%

Yes or no, any additional debt or major expenses in the near future would pose a serious financial risk for my household?

Yes	52%	No	48%

Yes or no, in my opinion the cost of college is rising at a rate that will soon put college out of reach for most people?

Yes	87%	No	13%

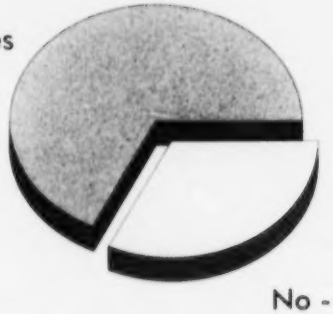
Has the prospect of increasing debt caused the current student(s) from your household to consider leaving school?

Yes	20%	No	80%

Has the prospect of increasing debt caused the current student(s) from your household to reduce their course load?

Yes	17%	No	83%

Yes or No, I consider student loans necessary yet they are a major financial hardship on my household?

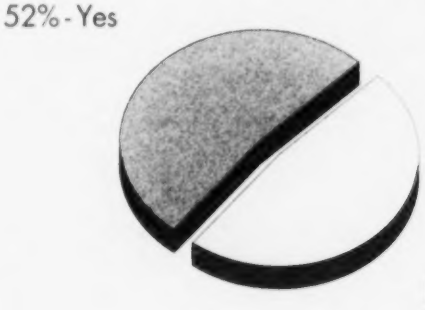


and educational objectives. Families are willing to sacrifice and take on much debt because they view a college education as essential. However, they are becoming anxious about the levels of debt they are assuming.

For example, witness the value that survey respondents place on higher education. Ninety-seven percent of the respondents ranked a college education of very high importance. When asked to rank the most necessary reasons to take out any kind of loan, the first most important reason to take out a loan was a tie between buying a home, 42 percent, and paying for college, 42 percent (only 6 percent cited purchasing a car as the most necessary reason to take out a loan). These responses clearly indicate a willingness to sacrifice and an acceptance of borrowing in order to pay for college.

But the economic consequences of borrowing are beginning to have an impact on families. Sixty two percent of the respondents said they anticipated having to forego major purchases or spending because of the costs of college, including buying a car or home and paying for a vacation or other entertainment. Slightly more than two out of three respondents, 68 percent, agreed that student loans are necessary but are a major financial hardship for their households and 66 percent of respondents believe that buying a home is unlikely shortly after graduation. Further when asked if total household debt, includ-

Yes or No, any additional debt or major expense in the near future would pose a serious financial risk for my household?



ing student loan debt, is manageable or a hardship, one quarter of respondents--24 percent--cited their overall debt as a hardship.

There is great concern among students and families about the rising cost of college and future debt burdens. An aggregate of 38 percent said college was not affordable. An overwhelming 87 percent of respondents said that the cost of college is rising at a rate that will soon put a college education out of the reach of most people. Just over half of the respondents, 52 percent, reported that any additional debt or major expense in the near future would pose a serious financial risk for their households. Fifty-five percent said that an additional student loan would make their overall debt burden somewhat or much more of a hardship.

Student loan debt is a very serious problem for a significant number of students and families. Nineteen percent of respondents said that students loans are or will represent the highest portion of their household debt. Twenty percent of respondents said that the prospect of increasing debt has caused students to consider leaving school; 17 percent stated the prospect of increasing debt has caused them to consider reducing their course load. Twelve percent of respondents cited student loans as being more than 75 percent of their household debt, and 17 percent said that their monthly student loan payments are higher than their monthly payments for a mortgage or rent.

Survey responses overwhelmingly demonstrate that the economic value of higher education remains a strong motivating factor for students and families. It is likely that a major reason college was cited as profoundly important is the expected outcomes of a college education. When asked directly whether or not a good job was a likely or unlikely outcome from a college education, 83 percent responded "likely". Further, when asked to predict the single most likely outcome from a college education, 67 percent cited "a good job", and another 10 percent said "have a higher income".

College is therefore a worthwhile investment, and as the Department of Education data reveal, many students and families are willing to take on loan debt to pay for college. Yet the data indicate a disturbing future for these students and families. Many American families have recently taken on sizable amounts of debt from programs that have high borrowing ceilings and diminished subsidies that would soften the impact of this increased debt load. The substantial growth of the PLUS program, which allows parents to borrow regardless of their ability to repay, demonstrates that the family is actively involved in assuming

these higher debt levels, not just the student. Worse still, the NPSAS data indicate that some of the very families who are borrowing more are those whose economic condition upon entering higher education leaves the smallest margin for failure; the rewards of higher education for these families would be substantial, but the price of failing would be even greater.

But borrowers' attitudes as illustrated in this survey do not reveal either an awareness of these facts or a willingness to change their behavior. Survey responses indicate that there is scarcely a movement to cut back on participation in higher education: low percentages of respondents indicate that the student would leave school or reduce course loads in the face of increased debt. Instead, the recent increased participation in loan programs shows a strong response to expanded borrowing opportunities.

Family Debt Profile #3: The Jones Family*

"We have no choice but to borrow money. If we could do it otherwise we would, but our living standards have to meet our budget requirements."

The Jones family includes a mother, a father, and two students: Allison, a senior studying medical technology, and David, who will enroll in college next academic year. The Joneses' annual income is about $100,000 and their current loan debt is between $20,000 and $30,000.

To pay for college, the family has private sector loans and has applied for government loans, in addition to utilizing their savings. Paying for college is a high priority, although borrowing to do so is seen as a kind of necessary evil. Allison receives no other financial aid and her father feels that "college education is not as affordable as it should be."

This family is making sacrifices to pay for college. "We are maintaining our old cars instead of buying new ones . . . we are spending less on clothes, food," according to Mrs. Jones. The family now takes shorter vacations, and Allison works part-time while in school.

If loans or other financial aid were not available, the family would face a difficult choice of whether the children could attend college. "Probably not, but maybe they could attend state schools, go part-time, or work more while in school," stated Mr. Jones. He also believes that his current loans and the one he will take out for his son next year will not pose an immediate financial burden or risk for his family, but that he "might have to adjust my retirement plans. Maybe my retirement will be in jeopardy."

CONCLUSION

The information presented in this report provides one of the most comprehensive portraits to date of college debt and the American family. The findings indicate that we are at a crossroads in the financing of higher education. Record levels of borrowing that have been reached in the 1990s are projected to continue, yet national survey data indicate a public that is willing to shoulder the burdens of student loan debt because a college education is so important. At what point does the willingness to sacrifice get overtaken by the crushing reality of debt loads that inhibit other economic activities? The trends presented in this report suggest that this point may come sooner than we think.

Our national survey shows Americans "locked in" to the American Dream of a college education. Despite signs that they are at or near their limits, they see college education not as an optional purchase or debt, but as an essential goal. And now, with so many more families borrowing to pay for higher education, college debt has increased its prominence in the budget of American families. However, many American families say college financing is a "major hardship" to them now, and indicate great anxiety about their future and any additional debt or expense.

We are also seeing greater increases in borrowing for specific categories of students. Borrowing for students at public colleges and universities is rising at higher rates than at private institutions. There also has been a marked increase in the borrowing levels of nontraditional and minority students.

This report raises critical questions. With borrowing levels projected to more than double in the next five years, and with Americans near their debt limits now, will increased debt pressures push them beyond their limits? Or will higher education and the financing structures adapt? The well-being and even the economic survival of the American family may rest on whether these questions are satisfactorily answered.